

Will need corrections

MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND
July 18, 2013

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Wednesday, July 18, 2013, at 3:00 p.m. in the second floor conference room of the Fire Department Administrative Building at 204 S. First Street, Rockford, Illinois, pursuant to notice.

CALL TO ORDER

The meeting was called to order at 3:05 p.m. Upon a call of the roll, the following answered:

ATTENDED: Alan Granite, President
Jim Strey, Trustee

Chris Black, City Finance Director

ABSENT: Tracy Renfro, Secretary,

Michael White, Trustee

STAFF: Ted Dutkiewicz
Linda Wlaznik, Pension Investment Accountant

Judi Yehling, Recording Secretary

GUESTS: Attorney Carolyn Clifford, Ottosen Britz
Otto Odendahl, Manning & Napier

Mike Piotrowski, Marquette Associates

PUBLIC COMMENT -- None

I. MINUTES

- The June 19th minutes were presented. Jim Strey made a motion to approve the minutes and Chris Black seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Chris Black
Jim Strey

Nays: None

II. APPROVAL OF APPLICATIONS/PENSION CHANGES

- Bruce Spickler passed away on May 15, 2013, and his pension will terminate. However, his surviving spouse, Carole Spickler, is eligible to receive a dependent's pension. Jim Strey made a motion, seconded by Chris Black, to approve termination of the firefighter's pension but granting the surviving spouse benefits. A roll call vote was taken:

Ayes: Alan Granite Chris Black
Jim Strey

Nays: None

- Richard Robbel is due for his first increase of \$151.86 on July 1, 2013. His new monthly pension will be \$5,213.70 or an annual pension of \$62,564.40. Jim Strey made a motion, seconded by Chris Black, to approve pension increase as stated. A roll call vote was taken:

Ayes: Alan Granite Chris Black
Jim Strey

Nays: None

- Jeff Cowles is due for his first increase of \$160.63 on July 1, 2013. His new monthly pension will be \$5,515.11 or an annual pension of \$66,181.32. Correspondingly Bonnie Verhagen, who has a QILDRO on file as his ex-wife, will receive her first increase. Jim Strey made a motion, seconded by Chris Black, to approve the pension increases as stated. A roll call vote was taken:

Ayes: Alan Granite Chris Black
 Jim Strey

Nays: None

III. DISBURSEMENTS

- Jim Strey made a motion to approve the July payroll of \$1,226,174.06. Chris Black seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Chris Black
 Jim Strey

Nays: None

Invoices totaling \$38,433.38 were presented as shown in the attached warrant packet. Alan Granite made a motion to approve the invoices as presented in the warrant packet. Jim Strey seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Chris Black
 Jim Strey

Nays: None

IV. CASH & INVESTMENTS

- Otto Odendahl presented Manning & Napier's Investment Performance Review:
 - Manning & Napier is the international equity, all cap, manager for the Rockford Firefighters' Pension Fund holding its assets in an overseas mutual fund.
 - They have about \$48 billion in assets under management and 500 employees that own about 86% of the stock. In November of 2011 they went public and have paid six to seven dividends.
 - There is \$13 million in fund's account and it was up 4.2% net of fees year to date. It is pretty much even with the index for the month and at one year it's at 17.99% -- a little behind the EAFE and ahead of the MSCI.
 - Investments in emerging markets have been tough but they have only 7% in emerging markets and most investment is in Europe.
 - Page 9 gives the fund's sector allocations and the top ten holdings showing a bias to energy production.
 - The charts on page 6 of the overall market review show the price to sales ratios over the last ten years which Manning feels is a "purer" comparison than earnings. The U.S. is at the top of the range but the Euro zone is lower.
 - Manning believes it will be tough going forward but they should see steady slow growth and they have concentrated the portfolio in companies with slow growth holding a lot of consumer stocks which are slow but reliable. Their exposure to emerging markets is about 6-8

% but they can go to a maximum of 35%. Mike Piotrowski commented that this is a truly actively managed portfolio with 70 people in their research department.

- They are a very team-oriented company and this fund actually requires \$1 million to get into and has a retail charge of 1.12% and 0.67% for commercial.
- Odendahl left at 3:30 p.m.
- Following the presentation there was a discussion of investment in international stocks. In response to a recent DOI advisory opinion that has allowed fire and police pension funds to invest in international stocks, Mike Piotrowski advised that he would never recommend direct investment in international stocks as it is very difficult to do because of taxes and different currencies. He said that most managers have \$100 million buy-in for a separate international stock account. The reason we hired Manning & Napier was to get into international but with a reasonable investment and cost. At this point, Mike Piotrowski pointed out that as an all cap international manager Manning is in a very difficult market with international lagging versus the U.S. market at this point.
- Mike Piotrowski presented Marquette Associates' Pension Fund Report for June 30, 2013:
 - Fixed Income continued to be hard hit much as last month, down 2.5% YTD. The more high quality it was, the worse they've done. "The bond market overshot itself," according to Mike Piotrowski, and there is a better opportunity right now in the commercial bond market.
 - Looking at Page 6, stocks have done well YTD but June was an extremely "negative" month for both stocks and bonds; the only thing that did well is real estate.
 - Page 11 of Exhibit 1, shows the Fund composite down 1.7% net for the month but it has done well YTD. Currently the Fund has \$144 million in assets and is a little underweight to international.
 - Pages 13 shows the performance of the individual managers:
 - Montag and Fiduciary were both lagging for the month and Fiduciary is holding quite a bit of cash. July has not been a good month for them due to the large amount of cash holdings. We can take the cash out and put it in an index fund, Mike Piotrowski commented, as this is as extreme as he's ever seen a manager be, as far as holding a lot of cash, and with most other managers they wouldn't tolerate this cash position. Fiduciary is being paid 90 basis points to manage cash and the Board could ask for a rebate of fees but Mike Piotrowski is sure "how far you would get."
 - The international sector, Manning has been in a tough spot but valuations are strong.
 - In real estate Principal was up 4% for the quarter and 7% YTD but PIMCO has suffered a significant decline of -4.2% for the quarter but as of today is only down -1.6%.
 - Both Hillswick and Segall-Bryant did poorly for the month but have done well in the long term.
 - Mike Piotrowski concluded by saying that overall he is pleased and looking at page 17 which shows fee schedule of all the funds he believes it to be "pretty good."
- Cash needs for the month are \$160,000 and the recommendation is to take it from Fiduciary. Jim Strey made a motion, seconded by Chris Black, to take \$160,000 from Fiduciary to meet cash needs for the month. A roll call vote was taken:

Ayes: Alan Granite Chris Black
 Jim Strey
Nays: None

- Ted Dutkiewicz passed out the report on the status of the Fund as of June 30, 2013:
 - The report showed total current market value of the Fund was \$143.96 million, up 3.076% year to date. The equity fund is up 19.669%, and fixed income is down 17.154% at 36.217% of the total Fund.
 - Total annual return is at 10.97%; equity annual return is 37.84%, a fixed income annual return of -24.46%, and a total income return of 5.67%.
- Records of purchases and sales were distributed.

Alan Granite made a motion, seconded by Chris Black, to approve the purchases and sales for the month. A roll call vote was taken:

Ayes: Alan Granite Chris Black
 Jim Strey

Nays: None

V. OLD BUSINESS

- Attorney Clifford indicated that all three IME physician reports have been received, and all three individuals on disability pension -- John Albaugh, Marc Gasparini and Larry Peterson – are still disabled, according the IME reports.
- Linda Wlaznik provided a copy of the draft letter in response to the findings of the DOI audit. Ted Dutkiewicz cited Finding No. 5 and the response disagreeing with the requirement that every time the Board membership changes, the fund manager contracts be signed again. This is because when the Board hires a new manager the Board directs the President to sign the contract on behalf of the Board; the contracts are not being entered into as individuals but as one entity per Attorney Clifford.

Linda Wlaznik continued saying that the final finding “looks more ominous than it is” and all the errors have been fixed, but there are two that remain on the discrepancy report.

One of them is on Al Pauletto’s pension benefit (Finding No. 8 Sub-point 2) which resulted in an overpayment of \$1,500.86 due to an increase error. Solutions to making up for the overpayment were discussed: withhold the 3% increases until the amount is paid off or deduct \$100.00/month until paid off. However, it is the Board’s decision whether or not to require repayment or simply fix the error going forward. Per Ted Dutkiewicz, the police board ask for restitution from its members when these sorts of errors have been discovered. Attorney Clifford suggested drafting a letter to Pauletto stating that the mistake was discovered during a DOI review and it needs to be addressed and the Board will take action at the August meeting to rectify. Jim Strey made a motion, seconded by Chris Black, to correct the amount of Al Pauletto’s monthly pension to \$4,003.58.

Ayes: Alan Granite Chris Black
 Jim Strey

Nays: None

The second half needs to wait until the next month so he is given notice. There are two options: repaying the overpayment either by lump sum payment or over a number of months.

Linda Wlaznik pointed out a second issue the DOI raised having to do with Larry Pelligrino who converted his disability pension in 2009 giving him a pension of \$42,078.38 with the statute that was in effect at that time; he passed away that same year and his wife received 100% of that pension. There was a new statute that went into effect since that time so DOI's calculating a different amount than what the City's finance department was calculating. On this issue, finance disagrees with the DOI.

The last issue has to do with a select group of firefighters who retired in the 1970s whose pension increases were calculated at 3% of the original pension amount but with the introduction of HB3606 in 2009, the increases were calculated on 3% of the current pension. DOI has calculated a different amount, and the City's finance department can't determine how DOI has come up with that amount. It's not a very large discrepancy between the two numbers, and the City finance department recommends staying with its numbers. If finance's numbers continue to be the ones used, then we will always get this same discrepancy report. One of the differences was \$600/year or \$20/increase.

The DOI expects the signature sheet back and the minutes from the Board's meeting at which the audit results were discussed by the Board, but DOI acknowledges that the minutes may not yet be completed and approved by the Board in the timeframe for response and can be forwarded at a later date.

Alan Granite made a motion, seconded by Jim Strey, that the response letter to the DOI be accepted and approved. A roll call vote was taken:

Ayes: Alan Granite Chris Black
Jim Strey

Nays: None

- The DOI Annual Statement is done. Jim Strey made a motion, seconded by Chris Black, to approve and put the DOI Annual Statement for the year ending 12-31-12 on file. A roll call vote was taken:

Ayes: Alan Granite Chris Black
Jim Strey

Nays: None

- Ted Dutkiewicz went over the Actuarial Report with Tim Sharpe and had him do various calculations we asked for. Ted Dutkiewicz went over with the Board those calculations, the first of which were those from last year. On the sheet passed out the second column takes what was done last year with no changes in options and based on longevity and performance, what would be the contribution increase which increases the contribution from \$5.6 million to \$6.3 million.

The third column is using PUC and the 90% but moving to the 2000 mortality table and that increases the contribution by \$900,000. The fourth column uses entry age and the new mortality table, and then the fifth column uses entry age at 100% and the new mortality which is the \$2 million increase.

4671962.00
What the City finance department will be recommending is PUC at 28 years, a 90% amortization and the new mortality table, basically column three. That will be the contribution requirement that will be presented to City Council for levying of taxes and replacement taxes. That is a contribution of \$66.71960. Based on the number of persons with over 30 years of experience and the age of the Fund, our PUC contribution would actually be higher than if we were at entry age and under state law you have to contribute PUC. Per Chris Black they want to discuss with the actuary the use of entry age in the future which going forward would seem to be a more practical means. The Board would like to arrange to have a phone conference with Tim Sharpe to go over the actuarial report and based on absences do it at the September meeting.

- Closed Session minutes were reviewed as required every six months. Alan Granite made a motion, seconded by Chris Black, to keep the closed meeting minutes closed. A roll call vote was taken:

Ayes: Alan Granite Chris Black
Jim Strey

Nays: None

- Policies and forms discussion were tabled until next month.
- Ted Dutkiewicz sent the letter to Hartford, requesting a lump sum payment on the annuity contract for Elden Raasch. He has heard nothing back yet.
- The annual affidavits that are sent to pensioners and beneficiaries are in progress; the due date is August 31st.
- Discussion was held concerning meeting date and time. Ted Dutkiewicz said the Board renegotiated with Marquette to hold the meetings on the same day as the police. However, police is moving their meetings in September, October and November to different days. The Board agreed to change to those dates also. However, the August date is not affected. Segal Bryant is scheduled for September so we could move Tim Sharpe to October.
- **CLOSED MEETING** – None required.
- Training was discussed and a packet on training opportunities was handed out. Jim Strey will be going to the conference in Lake Geneva through the Cherry Valley Fire Department. Alan Granite will going to the AFFI one in Bloomington in October. Chris Black needs 16 hours of training.
- Audit report was gone over.

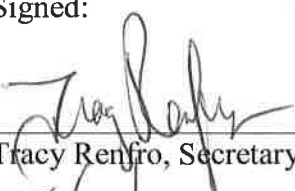
VI. NEW BUSINESS -- None

VII. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 4:35 p.m.

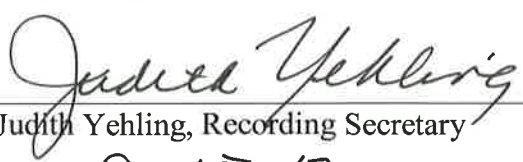
Next regular meeting is August 15, 2013, at 3:00 p.m.

Signed:



Tracy Renfro, Secretary
8/15/13

Prepared by:



Judith Yehling, Recording Secretary
8-15-13

Date

Date

Approved by the Board of Trustees at its August 15, 2013, meeting
